

FDIC State Profile

Fall 2005

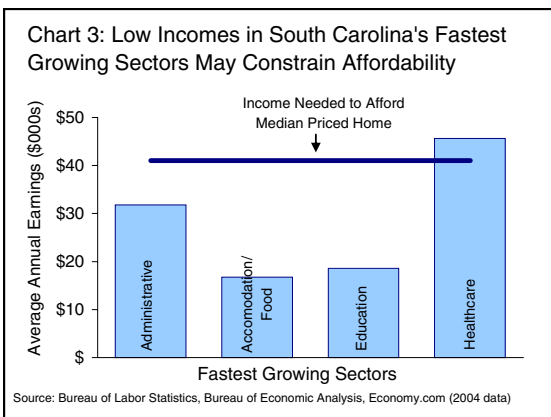
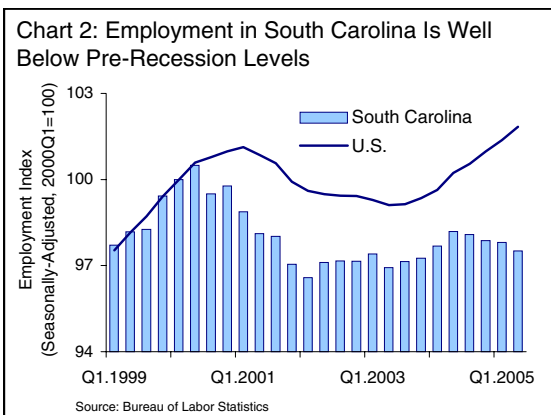
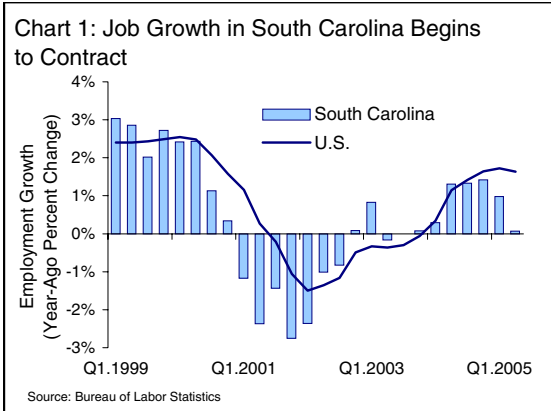
South Carolina

South Carolina's economy slows while unemployment moderates slightly.

- South Carolina's economy deteriorated in second quarter 2005 as employment contracted slightly from year-ago levels, effectively ranking job growth among the worst in the nation (see Chart 1). Early data from third quarter suggests further weakening. Declines in service-providers, such as education and professional services, and job losses in manufacturing continue to constrain growth. Recent weakening in the state's economy underscores the fact that total employment in the state remains well below pre-recession levels (see Chart 2).
- Economic performance varies within the state. Although gains have slowed markedly, **Charleston** and **Myrtle Beach** remain the fastest growing areas of the state with year-over-year job growth above 2 percent. Other metropolitan areas have experienced more modest gains of less than 1 percent, while **Sumter** suffered actual employment losses over the past year as numerous sectors posted declines.
- Recent hurricanes likely will have indirect implications leading to higher energy costs, supply and distribution disruptions, and the temporary or permanent absorption of residents dislocated by the storm.

Residential construction has been a key driver.

- Despite accounting for less than 5 percent of total employment, homebuilding has played an outsized role in South Carolina. Between the end of 2001 and 2004, residential construction-related employment directly accounted for one-tenth, or 3,300 jobs, of the 32,700 total net gain in private employment.¹ Indirectly, the industry's importance has been further amplified by the ripple effect it has caused in other sectors of the economy.
- Homebuilding in South Carolina boomed through the first half of 2005, with permit issuance up nearly one-quarter from year-ago levels. Although home prices continued to rise, they were well below the national



¹Residential construction-related employment includes residential construction and specialty contractors; mortgage lenders and brokers; and residential real estate agents, property managers, and appraisers.

average. Nonetheless, affordability issues may emerge as average earnings in some of the fastest growing sectors of the state's economy fell below the income level needed to purchase a median priced home on conventional terms in 2004 (see Chart 3).

- According to the Office of Federal Housing Enterprise Oversight, home prices appreciated 8.1 percent for the 12 months ending June 30, 2005. Rising appreciation may alter the relationship between home prices and apartment rents in Charleston. Although rents have increased since 2001, they have failed to keep pace with home price appreciation (see Chart 4). Subsequently, it may become more difficult for residential real estate investors to charge rents that are high enough to cover monthly mortgage payments.

Small business performance measures vary.

- The net number of small businesses in South Carolina grew 3.7 percent in 2004.² The booming residential real estate market is influencing the growth of some small businesses. For example, landscaping and lawn service firms in the state, which have an average of six employees, increased jobs by 14.8 percent in 2004, much higher than the 1.5 percent increase in overall private payroll jobs.
- Overall business lending at community banks in South Carolina fell during the past year to mid-year 2003 levels.³ Moreover, small business loans declined by 8.6 percent from a year ago, which contrasts sharply with the 3.7 percent national growth rate for all commercial banks. However, the share of small business loans as a percentage of all business loans did increase after declining in the three prior periods (see Chart 5).

Community banks continue their solid performance.

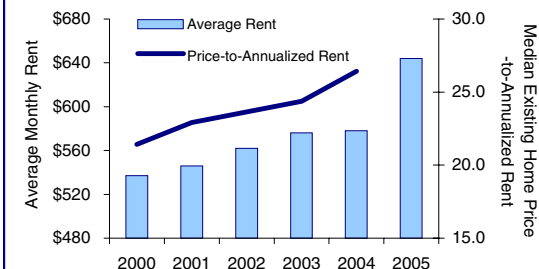
- Although overall banking conditions at South Carolina community banks were solid, profitability continued to weaken as return on assets (ROA) fell for a second straight period on lower noninterest revenues; ROA dropped 3 basis points since June 30, 2004, to 1.05 percent. Despite an increase in funding costs, net interest margins improved because of strong loan growth. After relatively flat performance the past few years, margins rose to 3.99 percent in second quarter 2005, up from 3.95 percent two years prior.

A shift in new deposit funding may lead to higher costs.

- South Carolina community banks may experience higher funding costs as the mix of new deposits is shifting to

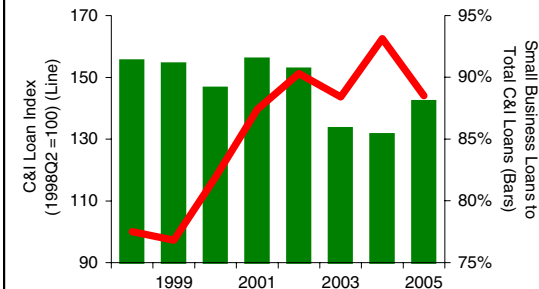
higher cost time deposits (see Chart 6). Depositors are moving into higher yielding products as the differential between holding money in lower yielding, but more liquid, transaction or money market deposit accounts has widened with the recent increase in short-term interest rates. The change in preference by depositors has contributed to the rise in the cost of deposits to 2.03 percent for the 12 months ending June 30, 2005, from 1.61 percent a year ago.

Chart 4: Charleston Apartment Rents Have Not Kept Pace with Home Price Appreciation



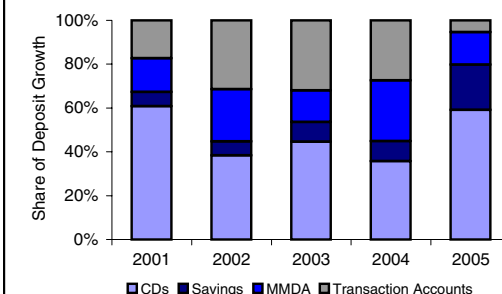
Source: National Association of Realtors, US Department of Housing and Urban Development, Economy.com

Chart 5: The Share of Small Business Loans Has Fallen at South Carolina Community Banks



Source: FDIC (Data as of June 30th)
(Small Business Loans have an Original Balance of \$1 Million or Less)

Chart 6: New Deposit Funding Mix May Lead to Higher Costs at South Carolina Community Banks



Source: FDIC (Data as of June 30th)

²"Small Business Profile: South Carolina," U.S. Small Business Administration, Office of Advocacy, 2004 and 2005.

³Community banks are insured commercial banks with assets of \$1 billion or less.

South Carolina at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.1%	1.0%	1.3%	1.1%	0.2%
Manufacturing (15%)	-1.6%	-0.9%	-3.5%	-2.7%	-4.8%
Other (non-manufacturing) Goods-Producing (6%)	-4.0%	-2.7%	3.2%	0.6%	0.5%
Private Service-Producing (61%)	0.2%	1.5%	3.0%	2.3%	1.5%
Government (18%)	2.5%	2.1%	-0.8%	0.4%	0.2%
Unemployment Rate (% of labor force)	6.4	6.9	6.8	6.8	6.7

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.2%	6.6%	7.2%	5.9%	3.5%
Single-Family Home Permits	26.6%	19.0%	13.5%	13.2%	11.9%
Multifamily Building Permits	16.4%	125.2%	54.9%	45.3%	14.8%
Existing Home Sales	14.4%	12.3%	22.7%	19.6%	14.2%
Home Price Index	8.1%	7.0%	4.1%	5.1%	3.7%
Bankruptcy Filings per 1000 people (quarterly annualized level)	3.52	3.56	3.75	3.68	3.94

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	96	98	96	96	97
Total Assets (in millions)	47,240	46,121	42,445	44,475	40,710
New Institutions (# < 3 years)	6	5	4	3	5
Subchapter S Institutions	3	3	3	3	3

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.23	1.33	1.53	1.35	1.67
ALLL/Total Loans (median %)	1.24	1.22	1.25	1.22	1.25
ALLL/Noncurrent Loans (median multiple)	2.24	2.47	2.25	2.07	2.18
Net Loan Losses / Total Loans (median %)	0.05	0.02	0.06	0.14	0.14

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.38	9.40	9.46	9.42	9.42
Return on Assets (median %)	1.06	0.99	1.02	0.92	0.98
Pretax Return on Assets (median %)	1.60	1.48	1.43	1.42	1.44
Net Interest Margin (median %)	4.25	4.03	3.93	4.02	4.06
Yield on Earning Assets (median %)	6.06	5.77	5.35	5.46	5.76
Cost of Funding Earning Assets (median %)	1.93	1.71	1.42	1.50	1.66
Provisions to Avg. Assets (median %)	0.16	0.17	0.16	0.21	0.25
Noninterest Income to Avg. Assets (median %)	0.74	0.63	0.81	0.79	0.88
Overhead to Avg. Assets (median %)	2.95	2.96	2.93	2.97	2.98

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	70.3	69.9	68.6	70.9	67.4
Noncore Funding to Assets (median %)	24.9	23.4	23.8	24.0	22.5
Long-term Assets to Assets (median %, call filers)	11.0	11.7	13.1	12.3	12.4
Brokered Deposits (number of institutions)	31	31	23	26	20
Brokered Deposits to Assets (median % for those above)	6.8	7.1	4.0	7.4	3.0

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	74.1	82.6	93.1	87.1	91.6
Commercial Real Estate	282.2	262.2	237.9	252.1	229.2
Construction & Development	86.5	82.6	62.2	66.0	53.7
Multifamily Residential Real Estate	3.0	3.3	3.2	3.5	3.8
Nonresidential Real Estate	167.2	171.4	164.3	171.9	164.3
Residential Real Estate	236.7	233.9	232.5	234.6	232.9
Consumer	38.0	38.7	46.2	44.3	52.0
Agriculture	3.6	4.2	5.3	4.5	5.3

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Charlotte-Gastonia-Concord, NC-SC	38	78,456	< \$250 million	63 (65.6%)
Greenville, SC	28	8,961	\$250 million to \$1 billion	25 (26%)
Columbia, SC	24	8,690	\$1 billion to \$10 billion	8 (8.3%)
Charleston-North Charleston, SC	22	6,142	> \$10 billion	0 (0%)
Augusta-Richmond County, GA-SC	18	5,099		